



CAUSEWAY

From Blended Value to Impact Investing:

Catalyzing Financial Services for Enterprising Nonprofits

Event Report

December 3rd 2009

Introductions: Dr. Ilse Treurnicht, CEO MaRS

Chair: Tim Draimin, Executive Director, SiG National

Speakers:

Tim Brodhead, CEO, JW McConnell Family Foundation

Jane Ambachtsheer, Global Head, RI, Mercer Consulting

Jed Emerson, Partner, Uhuru Capital Management

Nora Sobolov, Intersol

Preface

CAUSEWAY

Causeway is a national collaboration hosted at MaRS and animated by Social Innovation Generation (SiG) and the members of our steering committee. **Causeway's objective is to fast track Canada's adoption of social finance, ensuring there is a healthy marketplace supported by mainstream finance institutions.** Highlighting it's inaugural year Causeway has produced a research study aptly named "Building the Case for Social Finance in Canada" through consultations with several key financial services leaders and have hosted a number of outreach events aimed to bring social finance to the forefront of finance innovation.

Our most recent event, "From Blended Value to Impact Investing" was convened around our guest Jed Emerson, the thought leader in blended value investing, in order to discuss ways that mainstream financial institutions can support the growing capital requirements of Canada's enterprising nonprofits. The objective of this meeting as well as subsequent discussions is to design, develop, and fast track the implementation of financial tools aimed at servicing the spectrum of blended value enterprise.

Many thanks to the participating speakers and everyone at MaRS, SiG@MaRS, and SiG National for their indispensable help with this event.

Executive Summary

Nonprofit sector organizations are looking to alternative sources of capital outside their traditional fundraising approaches. At the same time, investors looking for both financial and social returns on investment have been constrained in their ability to do so by the investment vehicles available to them. The area of high economic and high social value offered by blended value strategy offers an approach to providing these tools. Both the UK's Venturesome and the US's Nonprofit Finance Fund are models that we can learn from in Canada. Approaches like these also allow foundations to advance their missions through targeted investment of their assets.

Executive Summary

Through discussions among the panelists and participants a number of key opportunities for next steps were identified. These include the research and/or creation of:

- 1) A Loan and Investment Fund
- 2) A Community Investment Vehicle
- 3) A Fund of Funds Product
- 4) A Social Venture Fund
- 5) A Program Related Investment Fund

It was suggested that Causeway serve as an enabler of these activities. This support could include providing information and forums on the topic; researching current and emerging trends; convening stakeholders; and working on capacity building initiatives, particular those relevant to nonprofits

Panel Discussion – Tim Brodhead

Tim provided the context of what the social sector looks like in Canada. The sector provides services on behalf of government, organizes activities, provides an organized voice for those without one, and is a major source of innovative ideas.

- **There are over 161,000 registered charities and nonprofit organizations**
- **These organizations employ about 2m people, or 7.2% of Canada's labour force**
- **Sector revenues equal \$146.6B**
- **The largest source of revenue is from fees and the sale of goods and services, 43% revenue**

Organizations in the sector need to escape from an increasingly competitive income search in a zero-sum capital pool, augment their access to unrestricted income, and build additional stability through income diversification. On the expenditure side, organizations need to find additional capital in order to build innovative new programming and to take effective programs to scale

Overall the forces driving the demand for the development of social enterprise and social finance result from a combination of needs on both the income and expenditure sides of the ledger

Panel Discussion – Jane Ambachtsheer

Jane discussed opportunities and gaps in the advancement of socially responsible investment (SRI) in Canada.

- **The United Nations Principles for Responsible Investing integrates environmental, social and governance principles in investing**
- **Currently, there are 600 organizations participating with over \$20 trillion under investment; Canada is slow to take-up as only 20 organizations have signed-on**
- **Canadian core SRI community had about 3% of its assets in community investment social finance and 6% of assets in socially responsible lending**

Investment managers are constrained by the pooled vehicles available to them, custodians have been unfamiliar with what they are trying to achieve and although the banks are familiar with the objectives and tools they have been unable to help so far. They have been finding the fee and governance requirements in pushing forward this agenda have been high, and the move is further complicated when considering that a foundation looking to take these initiatives is likely to be further constrained by their specific mandate

There are a number of areas where further support is needed: 1. Investment due-diligence at a reasonable cost; 2. The development of a variety of investment vehicles. 3. Need the capacity to monitor, capture and communicate results; 4. Legal and tax advice surrounding these instruments

Panel Discussion – Jed Emerson

Jed has been working in the broad blended value investing space for over 20 years. His overview of the space is based on two key questions: first, are you and your assets maximizing your full potential? Second, are all your assets strategically aligned to achieve your 10 year goals and attain your 30+ year mission?

- **Unified investing involves, in part, a reframing of the meaning behind fiduciary responsibility**
- **There are three types of risk a financial institution could be exposed to arising from social and environmental issues of clients: credit risk, liability risk and reputational risk**
- **By integrating financial, social and environmental issues into decision-making an investor can improve risk management and see a higher return on investment**
- **We have high economic, low social value investments using financial instruments with numeric returns**
- **We have low economic, high social value investments using philanthropic instruments with social returns**

The area of high economic, high social value investments using blended value, investments with multiple returns and both financial ROI and social ROI presents a great opportunity for new developments. Once we recognize that for-profits have powerful social and environmental impacts, and that nonprofit organizations are a big component of our economy we move towards recognizing that we need new tools to bring those extra-financial metrics into the light.

There is an opportunity right now to reject the reset option following this crisis and open opportunities to build new perspectives on investment and value creation, as well as performance and returns

Panel Discussion – Nora Sobolov

Nora delved into the tool available for developing capital pools for nonprofits and charities in Canada. Her talk focused on the untapped market for loans and other products, the opportunity to provide risk reduction by entering this new market, the role of financial intermediaries and two key proven models: UK's Venturesome fund and the US's Nonprofit Finance Fund (NFF)

- **The financial tools available to nonprofits are limited compared to those available in the private sector**
- **The nonprofit sector only has the equivalent of seed capital through philanthropy and grants, little working or venture capital, a few loans beyond those against assets and mortgages**

Two key models serve as excellent examples of what can be done. Venturesome has a 12 year track record, better than breakeven results and provides unsecured lending including lines of credit, working capital and bridge loans without and use of government funds. The NFF began with a regional base, foundation and private lender support and met the needs of nonprofit clients of which 85% did not have a social purpose business. Their track record includes a 0.5% charge off rate and 70% of its pool provides market return

The proposal here is to open up intermediaries for lending to and investment in nonprofits and charities. The goal is to fill gaps in access to capital and build on existing proven models

Panel Takeaways

Panel Member	Takeaway
Nora Sobolov	There is an untapped market and no one single correct way to approach this, we need to integrate our silos of excellence
Tim Brodhead	The learning from the UK is that no one sector can tackle social challenges, we need multiple sectors to create an approach
Jane Ambachtsheer	Willing to lead the discussion for the development of a fund of funds, opportunity to fund someone to lead this work within a University, look into develop an impact investment work stream within SRI mandate
Jed Emerson	Impact investing is in motion. The issues that are raised here in Canada are not in isolation; people are in search of solutions to many of the same questions globally and there is opportunity to be a part of the discussion and offer our lessons learned

There are a number of next steps to follow up on and collectively advance

Participant Discussion

The question and answer period involving the the panel was largely focused on the general trends of innovation and entrepreneurship as well as practical challenges and opportunities of developing a social fund

Participant Discussion (Tools)

What is the minimum investment threshold to develop a financial product and what are some of the practical steps to get to scale?

- One private investment management company requires \$50m of raised capital to develop a new product
- One approach to solicit interest is to ask the market for 'best ideas' proposals; this will create awareness and engagement but also tap into specific financial skill sets
- By recruiting champions and small working groups, one fund was able to design a new product and has received buy-in from other large financial institutions
- Foundations are considering ways in which they can invest 95% of their assets; there is an opportunity for private and community foundations to channel more funds to program-related investments (PRI) (Ex. 45% of Heron Foundation assets are earmarked for PRI)

Participant Discussion (Tools cont.)

What is the minimum investment threshold to develop a financial product and what are some of the practical steps to get to scale?

- The role of the intermediary should not be underestimated; finding deals and conducting due-diligence has a cost burden that can be minimized by aggregating efforts

- In the initial stages of social investing and fund development, Government should reduce the cost barriers to conduct due-diligence and stimulate deal flow by seeding or funding this work

- There are not a lot of retail investment products available. Microfinance is a good example of a product as well as Calvert's Community Investment note

Participant Discussion (Innovation)

How do we bridge the innovation gap between the nonprofit and traditional for-profit worlds?

- As a group, we need to recognize and embrace the generation shift and the new vision for social change
- The traditional approach to finance has not worked evidenced by the past financial crisis. We need a new vision for finance that blends social/environmental and financial goals
- Formalize a framework for entrepreneurs to seek out capital sources and receive money
- Need to harness the role of social networking

Participant Discussion (Innovation) Cont.

How do we bridge the innovation gap between the nonprofit and traditional for-profit worlds?

- Identify and celebrate successful new partnerships and models
- Promote entrepreneurship – this will drive benchmarks and attract new sources of capital
- Metrics are important to understand holistic performance and show progression; it is poor to assume value for money, nonprofits need an approach to measurement

Summary of Feedback

It is recommended that **Causeway** focus their efforts on being an **enabler**. This could take form by:

- Organizing presentations, information sessions and forums on the subject
- Communicating relevant news and updates in the form of a mail-out
- Researching current and emerging trends
- Working on capacity building initiatives, particularly those relevant to nonprofits

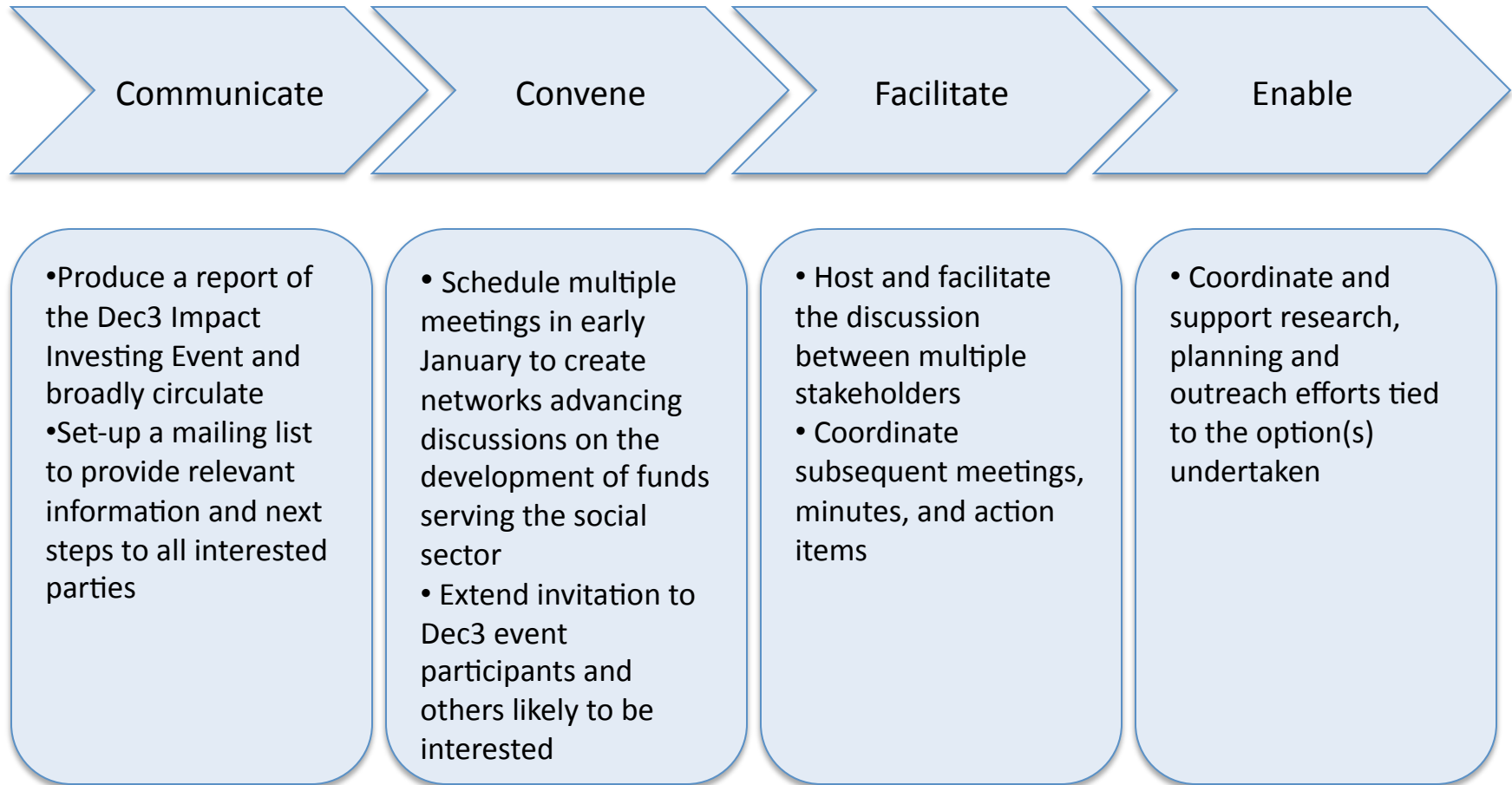
Summary of Feedback

The most commonly held opinion is that Causeway should convene and facilitate **follow-up discussions focused on investment vehicle opportunities**. The opportunities presented within the discussion were:

- 1) A Loan and Investment Fund
- 2) A Community Investment Vehicle
- 3) A Fund of Funds Product
- 4) A Social Venture Fund
- 5) A Program Related Investment Fund

More information regarding each option can be found in Appendix A: Six Options

Causeway's Next Steps



APPENDIX A

Six Options

Option 1: Loan and Investment Fund Concept

- This fund would invest exclusively in **nonprofit** organizations
 - A similar model, the Nonprofit Finance Fund (NFF) is a leading nonprofit focused fund in the US.
 - Act as an intermediary between the banks and the nonprofit
 - Appendix B provides details in addition to the table below:
- Lead: Nora Sobolov

NFF Focus	NFF provides nonprofits with loans (including facilities, working capital loans, and lines of credit), grants, and asset-building programs as well as advisory services (including workshops, referrals, and business analysis)
NFF Track Record	NFF has lent over US\$160mm and leveraged US\$1bn of capital investment on behalf of its nonprofit clients
NFF Loans	Interest rates vary according to market and sector. Loans are typically repayable over 5-7 years

Option 2: Community Investment Vehicle

Investment Concept

- The investment fund would invest exclusively in **social enterprise nationally**
 - Need to design a vehicle to channel socially responsible investment dollars from individuals and institutional investors
- Lead: Social Investment Organization (SIO)
 - SIO is in the initial stages of a feasibility study for the development of a Community Investment Vehicle (Eugene Ellmen)

Option 3: Fund of Fund Product Investment Concept

- The investment would focus broadly on **social impact**
 - Similar to a mutual fund structure
 - Fulfills a need to channel socially responsible investment funds; mission related funds could access all major asset classes
 - Diversify common risks
- Lead: Mercer Management Consulting (Jane Ambachtsheer)

Option 4: Social Venture Fund Investment Concept

- Impact investment for **social enterprise** and **social purpose business**
 - Funds to come from private investment capital
 - Potential for funds to leverage Government funds
 - Large scale in comparison to other options
- Lead: Kerri Golden (MaRS Capital Services) and Sarah Goel (Edgestone)

Option 5: Foundation MRI (Mission Related Investment) Fund Investment Concept

- Notional pooled investment capital available to catalyze development of a spectrum of intermediaries making social investments (nonprofits → social purpose business) more accessible for philanthropic institutions
 - Leverage foundation assets in pursuit of mission
 - Aggregating private family and community foundation resources, potentially reaching other philanthropic funders (e.g. corporate)
- Lead: The JW McConnell Family Foundation, Community Foundations of Canada and Philanthropic Foundation Canada

APPENDIX B

**A loan and Investment Fund for Nonprofits
Concept Paper → See Accompanying PDF**

Appendix C: Participating Organizations

Mercer Management Consulting	Edgestone Capital Partners	HSBC
Sears Canada	Social Capital Partners	RBC
Social Venture Partners	Excalibur Capital Management	Community Foundations of Canada
Pinnacle Capital	ClearlySo Canada	TD Securities
Asset Inc.	Loewen & Partners	Canada Gives
Greening Greater Toronto	Orchard Capital	Lumira Capital
Phillips Hager North	University of Toronto	Credit Union Central of Canada
Investeco Capital Corp	Social Investment Organization	SiMPACT Strategy Group
New Path Foundation	Retire Well	TD Asset Management
Toronto Atmospheric Fund	Imagine Canada	Wellesley Institute
RBC Wealth Management	Carleton Center for Community Innovation	Deutsche Bank Advisors
Axcelon	Philanthropic Foundations Canada	TD Waterhouse
Arbopals	NorthRock Capital	Uhuru Capital
Lynn Eakin and Associates	Igniter	The Intersol Group

Summary of Feedback

By the Numbers

67

Number of attendees

(see Appendix C for a list of participating organizations)

9.1

Rating of the event

9.2

Quality of the content

8.9

Rating of the venue



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